

Canadian Industries Limited



Annual Report
1940

CANADIAN INDUSTRIES LIMITED

MONTREAL

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NATIONAL TRUST COMPANY, LIMITED, MONTREAL

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ANNUAL REPORT

THE Directors have pleasure in submitting herewith the thirtieth Annual Report of Canadian Industries Limited, together with the Balance Sheet and the Income and Expenditure and Surplus Accounts for the year ended 31st December, 1940.

Every important unit of Canada's internal economy has in the past year faced a searching test of the strength of its organization. Industry no less than individuals has been called upon to assume new and grave responsibilities and industrial managements have co-operated in an aggressive endeavour to achieve the output of materials directly and indirectly essential to the war effort. In the immense and continuing task of accomplishing the transition from a peace to a wartime economy, the enormous advance in Canada's industrial capacity during the past twenty years has been thrown into bold relief. The concentration of full productive energy to supply the necessities of the present emergency has brought into focus the rapid growth of national resources which has resulted from the development of economic enterprise with its long-term planning, specialized techniques and efficient skills. Co-ordinating this machinery and man-power into an effective whole to assist in giving the British Commonwealth its maximum striking force is now the Dominion's predominant duty.

The general industrial situation in Canada, although of interest in considering a review of commercial activities, cannot here be analyzed in detail, but certain salient features of the present situation and outlook are briefly mentioned because of their relevancy. During 1940 as might be expected the total vol-

ume of production in the Dominion advanced to a record high level and output will be further expanded as additional capacity of government-owned and other plants now in the process of construction becomes available. Although the demand for industrial products created by wartime conditions is taxing present production facilities, it cannot be overlooked that long-term economic stability in this country is still founded on a strong foreign demand for the Dominion's primary and manufactured products. The loss of some foreign markets and selective purchasing by other nations has to some extent unbalanced domestic agricultural production, thus causing surplus stocks of wheat to be enlarged during the year although the demand for many other farm and dairy products exceeded the supply.

While the industrialization of Canada during the past two decades has been more extensive than is generally recognized (*see diagrams page 35*), the pace has now been accelerated by the specialized needs of war, and the resultant substantial expansion in the nation's plant capacity was the major factor in the increase in general activity. The necessary construction programme utilized practically the full capacity of the heavy goods industries and thus created a secondary demand which affected almost the entire economic structure. In addition to the increase in civilian consumption through greater employment, industry was required to produce large quantities of war supplies, with the result that most manufacturing plants operated at or near capacity, particularly in the latter part of the year. Because unused productive resources are rapidly diminishing, non-essential expenditures whether by consumer, industry or government will have to be curtailed in order to accomplish the maximum war effort. Without a firm control of consumer purchasing power, civilian and military needs will be competing for the limited supply of goods which can be produced. Recognition of these principles has already resulted in measures such as increased taxation of personal incomes and the encouragement of greater national savings, which have the two-fold purpose of supplying funds for war needs and of reducing civilian consumption. Unless such government efforts to reduce unessential private spending are successful,

it may become necessary to impose rationing or some form of compulsory saving.

The high level of business activity may have a tendency to obscure the unpleasant fact that a general reduction in living standards is inevitable in wartime, and that increased purchasing power cannot be associated with any real improvement in social conditions. War has always created serious economic problems to be faced in the period succeeding the conflict but their severity can be lessened to some extent by the timely adoption of realistic measures. Indications that vigilance in these matters is being exercised by those in control of national policies is encouraging, and no effort should be spared to avoid inflation, the effect of which is to impose the greatest hardships on the individual worker and on persons receiving fixed or relatively fixed incomes.

Nevertheless, the experience of the year under review has demonstrated that the Dominion possesses the industrial organization and personnel to marshal efficiently the nation's resources in a vast productive effort. New government plants are being brought into production ahead of schedule and the training of additional skilled labour is proceeding rapidly. The industrial contribution to the war effort is already on a high level and will soon reach a maximum. War needs are recognized to be of paramount importance and, while economic waste is unavoidable, the degree of post-war utilization of some of the additional capacity and newly acquired skills will depend upon the extent to which the country can plan during the war period to make provision for the problems of demobilized man-power and cessation of war production.

FINANCIAL REVIEW

THE bulk of the demand for C-I-L products continued as in peace-time to originate with the major chemical-consuming industries and the higher level of general business activity which started in 1939 has increased the volume of sales in nearly all fields of the Company's operations. In spite of this greater activity the final results of the Company show an unfavourable comparison with the previous year and the factors chiefly responsible are

taxes, increased delivered cost of raw materials, higher labour costs and the expense of complying with the various wartime regulations. As against higher cost of production only comparatively minor adjustments have been made in selling prices, with the result that the factory gross profit (selling price less factory cost) expressed as a percentage of sales is somewhat lower in 1940 than in the previous year. After making allowance for normal depreciation charges and contingencies and providing for taxes at prevailing rates, the total net income for 1940 amounted to \$5,396,163 as compared with \$6,232,143 in the previous year. Thus, with the imposition of excess profits tax and an increase in the income tax payable to the Dominion as well as to several provincial governments, the net income for the year was 13% lower than in 1939. Earnings per common share declined to \$7.27 as against the substantially higher figure of \$8.52 recorded in 1939. The earnings derived from manufacturing and selling activities, as distinct from investment income, constituted 87% of the total earnings (excluding non-recurring gains from realization of temporary securities), and reflected a reduction from the corresponding figure of 89% in the previous year.

INVESTMENT INCOME

Income from investments including interest on marketable securities and dividends received from subsidiary and other industrial companies was, before taxation, 12% higher than in the previous year. The holdings of Dominion Government bonds were reduced to provide funds for capital expenditures and as a result the amount of interest earned was below the level of 1939, but the reduction was more than offset by the increase in dividends paid by General Motors Corporation which totalled in United States funds \$3.75 per share as against \$3.50 in the previous year. For the second year in succession a common stock dividend of 50 cents per share was received from Dunlop Tire and Rubber Goods Company, Limited.

The additional investment made in subsidiary companies during 1940 is partly responsible for an increase over the previous year in dividends from this source, but initial dividends from

investments made in previous years, on which considerable development work was required, also contributed to the higher revenue. In accordance with the Company's established practice, earnings of subsidiary companies have not been consolidated with the accounts of Canadian Industries Limited and have been included in investment income only to the extent of this Company's share of the dividends declared. One subsidiary company incurred a loss of less than \$1,000, which has been provided for in the attached accounts. All other subsidiary companies were able to show a profit in 1940, and the total profits of these companies for the year exceeded the total dividends declared by an amount of \$151,000. In many of the companies, however, the liability for excess profits tax is uncertain and while the provisions for this liability have been computed on conservative bases, further charges against profits may become necessary.

DIVIDENDS

Regular quarterly dividends at the rate of 7% per annum were paid on the cumulative preferred stock. Dividends declared on the common stock for 1940 were reduced to \$7 per share from \$7.50 per share in 1939. Equal disbursements of \$1.75 per common share were made on the following dates: 30th April, 31st July, 31st October and 20th December. After providing for the dividends, an amount of \$192,000 was carried to Earned Surplus but the balance in this account at 31st December, 1940, amounted to \$4,395,763, an increase of only \$47,532 over the previous year, owing to retroactive increases in the rates of provincial income taxes applicable to 1939 income and other prior year adjustments.

NET CURRENT ASSETS

During 1940 the value of net current assets declined by \$1,700,000 to \$14,050,000 at 31st December, 1940, largely as a result of the expansion in plant facilities and the increased investment in subsidiary companies. The Company's working capital position, however, remains adequate to meet operating needs. Because of the capital expenditures and the necessity for the more

active employment of working capital the Company's holdings of government and industrial bonds were reduced by \$2,874,000 to \$1,352,000 at the end of the year. Inventories, at the lower of cost or market value less a reserve against future loss in inventory values, amounted to \$10,175,000 as against \$8,074,000 at the end of the previous year. The greatest part of the increase occurred in stocks of raw materials. Prices of materials generally are in excess of the 1939 level mainly because of higher costs for ocean freight and insurance, the premium on United States funds and the war exchange tax, although commodity base prices are also, but to a lesser extent, a contributory factor.

FIXED ASSETS

The investment in plant, buildings, equipment and land totalled \$36,437,000 at 31st December, 1940, and showed an increase of \$2,104,000 during the year under review. Over a period of years the Company has consistently expanded and improved its manufacturing facilities, these extensions being made to meet a long-term growth in demand or to achieve greater efficiency and better quality of product. Although further extensions during 1940 could hardly be justified by normal economic standards, nevertheless, in order to meet the war-time demands of the chemical-consuming industries, the Company authorized the expenditure of \$4,017,000 of its funds on new plant construction and equipment. The total amount approved during 1940 included amounts for the erection of additional facilities to provide for the manufacture of the following new products: zinc chloride and sodium sulphite at Hamilton, nylon yarn at Kingston, and nylon monofilament at Brownsburg. The remainder of the expenditures approved, increased the capacity of existing plants and made possible an expansion in the output of sulphuric acid at Hamilton, caustic soda at Windsor, and chlorine at Shawinigan Falls and Cornwall.

Actual expenditures for capital account during the year totalled \$2,749,000 and buildings and equipment with an original value of \$645,000 were dismantled. Under war conditions efficient and economical production is even more urgent than in peace-time

and in order to maintain the highest possible standards of operating efficiency the Company expended \$1,506,000 on repairs and maintenance during the year, although with plants operating on heavier schedules repairs in some instances have necessarily been deferred. Operating costs have also been charged with an amount of \$1,816,000 to provide for depreciation at rates based on prior years' experience.

TAXATION

The mounting cost of Canada's war effort has had the inevitable result of increasing sharply the portion of profits that must be set aside to meet the Company's tax liabilities. It is logical to expect that taxation for the purpose of paying for the cost of the war will bear heavily on profits which have been increased either directly or indirectly by reason of the artificially stimulated level of business, but the tax structure in Canada is such that a large amount of extra payments accrue to the benefit of provincial governments. While the excess profits tax, with its important effect on profits, has overshadowed the increases in the Dominion income tax rate (15% to 18%) and in provincial income rates, nevertheless payments by the Company under provincial income and capital taxes in 1940 will be about 125% higher than the average of the last four years.

Excluding war exchange tax, sales taxes and customs duties, the total taxes paid or payable in respect to the year 1940 amount to \$3,836,000 as compared with \$1,688,000 in 1939. During the period between 1st May, 1939, and the 30th April, 1940, the Company expended over \$2,250,000 on capital account, which under the Income War Tax Act resulted in a 10% tax credit amounting to about \$225,000. This amount will be deductible in equal instalments from the payment for income tax in respect of the years 1940, 1941 and 1942.

For several years the Company has been advocating the simplification of the existing tax structure. As each year passes it becomes more apparent that there is no reduction in the unproductive labour involved in interpreting and in complying with the requirements of the numerous tax statutes. Each of the

nine provinces levies income taxes at rates ranging from 2½% to 10% and several of the provinces levy capital taxes. Four of the eastern provinces have levied higher rates for income tax in 1939 and 1940 than in any previous year. The duplications in these and other provincial matters were the subject of an extensive study which culminated in the report of the Royal Commission on Dominion-Provincial Relations. Effect has already been given to the Commission's recommendation that the Dominion should be granted jurisdiction to establish an unemployment insurance scheme and the Dominion has exercised its new authority by the enactment of the Unemployment Insurance Act—1940. The Commission's other recommendations were referred for consideration to a Dominion-Provincial Conference which met in January, 1941. No progress, however, was made towards solving the difficulties.

In so far as Dominion taxation is concerned there appears to be recognition that care will be necessary in administering taxes at the present abnormally high levels and several measures have been adopted to provide for discretionary action; included amongst these are the establishment of the Board of Referees under the Excess Profits Tax Act, the War Contracts Depreciation Board, the enactment of the War Exchange Conservation Act which provides for relief from taxation under certain circumstances, and the authority given to the Minister of National Revenue to allow under the Excess Profits Tax Act a limited reserve against future loss in inventory values.

OPERATING REVIEW

ORDINARILY there are two major factors which affect the volume of the Company's sales—general business activity and the introduction of new products. During the last ten years the Company's volume of business has increased at an average rate of about 10% per annum but, as already mentioned, other factors have affected the year 1940, and the total value of sales of the Company is 20% higher than in the previous year.

The greater volume of sales in the Chemical Group, which

accounts for over 55% of the increase in total sales, is attributable largely to the considerably higher level of activity in the pulp and paper and textile industries. The Cellulose Products Group made the next largest contribution to the increase in total sales, partly brought about by the expanded requirements of the automotive industry, and sales of the remaining two groups, made up for the most part of shipments to the mining and farming industries, achieved only a minor advance over the high levels of the previous year.

The dislocation of sources of supply of some raw materials and of imported chemicals has added to the problems that develop under wartime conditions and the long-range programme of providing manufacturing facilities for the production of commodities formerly handled on a resale basis has had to be accelerated. Such developments can be undertaken only after intensive study by chemical and engineering specialists and for this purpose the Company is fortunate in having at its disposal not only its own specialized departments and laboratories, but also the accumulated experience in research made available to it through its association with Imperial Chemical Industries Limited and E. I. du Pont de Nemours and Company. Heavy demands were made on the Company's organization and the efficient manner in which these new difficulties were handled greatly facilitated the adjustments necessitated by the changed conditions.

With certain very minor exceptions, sales in 1940 of military products to the Canadian and other governments of the British Commonwealth were made by the wholly-owned subsidiary, Defence Industries Limited, which is now acting as an agent for the Government in the construction of plants and the production of war materials. During the year less than 1% of the total sales of Canadian Industries Limited were made to Defence Industries Limited and additional sales amounting to slightly over 1% were made direct to various Canadian and British Government bodies. Sales of materials to many trades and industries engaged in war production also affected divisional operations in 1940 and have been referred to under the appropriate headings in the following review of group activities.

CELLULOSE PRODUCTS GROUP

Each year since its introduction to the Canadian market, established outlets for "Cellophane" have been extended and new uses have been developed. This steady expansion has kept pace with fundamental alterations in merchandising methods and the accompanying changes in consumer buying habits, and the year 1940 recorded a further advance in sales. "Cellophane" by preventing deterioration in a wide variety of products has brought about economies in distribution costs, and as a moistureproof protective covering its hygienic value has received widespread recognition for packaging food products. The importance of both these factors takes on added significance under present conditions when every effort should be made to avoid deterioration of stocks and wastage of food. Production efficiency and the fact that "Cellophane" is manufactured almost entirely from Canadian raw materials, made possible a further reduction in selling prices during the year.

Products of the "Fabrikoid" Division enter into a great diversity of manufacturing trades and its output was therefore directly affected by the expansion in the volume of total industrial production in the Dominion. The largest increase, however, occurred in sales to the automotive industry as the production of military vehicles greatly intensified the demand for upholstering materials. Other industrial requirements of "Fabrikoid" showed a more moderate advance and sales to the footwear industry were lower than in 1939. Improvements in design contributed to the larger sales volume as did the increase in the number of products manufactured which totalled over eight hundred in 1940 as compared with seven hundred in the previous year. The new coating equipment installed during 1939 made it possible for the Division to maintain a high standard of operating efficiency in handling the enlarged volume of business. Further plant improvements were undertaken during the year in order to equip the Division with facilities for continuing the advance in variety and quality of products while keeping production costs at the lowest possible level.

In addition to the heavier production load demanded of the

Paint and Varnish Division by the high level of activity in the automotive and aircraft manufacturing industries, sales of paint were stimulated by the revival in industrial and other types of construction. Sales through retail outlets, although greater in 1940, did not show a comparable advance as residential building and renovations were at approximately the same level as in 1939. An important position in the industrial and other markets was attained in the course of previous years by making technical service available to customers and by the constant attention given to research with the resulting introduction of new and improved products. In 1940, however, the Division's research laboratories and technical experience were largely devoted to the development of new finishes to meet the specialized requirements of manufacturers of equipment for war purposes. The Toronto works successfully accomplished new high levels of production and during the year extensions to provide additional office space were completed. In February the new Montreal works, which replaced previous facilities with a plant of latest design, came into operation and handled with great efficiency the requirements of the Province of Quebec and the Maritime Provinces. The increased demand from the Prairie Provinces was supplied from the Regina works and necessitated an expanded production schedule.

The position in the Canadian market of manufactured products of the Plastics Division is being successfully consolidated and sales for 1940 made further substantial gains. The development of new and improved products is proceeding rapidly in the field of plastics and while the demand for many of the new developments does not yet justify their manufacture in the Dominion, many such products are distributed by the Division. Sales of "Butacite", which is replacing cellulose acetate in the manufacture of safety glass, and "Lucite" and "Perspex", in the form of heavier sheeting materials for window lights in aeroplanes, show a considerable increase over the previous year, almost entirely as a result of military requirements. The demand for moulding powders and X-ray film also continued to improve. The installation of equipment for the manufacture of nylon monofilament, which is expected to be completed early in 1941,

will extend the use of this product to many types of industrial brushes and will ensure adequate supplies for uses already established in the manufacture of toothbrushes and hairbrushes.

CHEMICAL GROUP

The upward trend in the consumption of heavy chemicals which became evident in the closing months of 1939, was continued in 1940 and sales of caustic soda and chlorine, the two major products of the Alkali Division, showed a substantial improvement. The export of chemical pulp from Canadian mills made a marked advance following the exclusion from established markets of Scandinavian shipments, and the industry's requirements of chlorine for bleaching purposes advanced correspondingly. Caustic soda, which is used in the manufacture of food-stuffs, textiles and pulp as well as in oil refining and metal processing, is more dependent on domestic conditions, and shared in the general increase in industrial activity. Certain items in manufacturing costs advanced during the year but the effect of this tendency was partly offset by economies derived from the greater volume of production and the maintenance of operating efficiency. In order to obtain full benefit from the advance in chemical processes, additional new equipment was installed at the Windsor plant, and the new caustic finishing plant at Shawinigan Falls came into operation in April.

The General Chemicals Division has for many years operated plants for the production of sulphuric acid, muriatic acid, ammonia, salt cake, Glauber's salts, liquid silicate of soda and other miscellaneous chemicals. Although adverse economic conditions have caused temporary setbacks, the chemical needs of industry in Canada have greatly expanded during the past twenty years and in 1940 sales reached an exceptionally high level. The largest advance occurred in sales of sulphuric acid as in addition to its widely diversified uses in industry, it is in considerable demand for war purposes. New plants for the manufacture of ammonium chloride, sodium sulphite and zinc chloride at Hamilton were in operation before the close of 1940 and thus an adequate supply of

these chemicals is now assured. Because of the varied chemical requirements of such industries as the metal, tanning, textile and pulp and paper, the Division also handles large quantities of imported chemicals on a resale basis. The necessity of establishing new sources of supply for many of these chemicals has thrown a very heavy strain on the organization, but requirements have been fully met despite the greatly increased consumption brought about by war conditions. With one minor exception there has been no change in the selling prices of manufactured products, although selling prices of many imported chemicals have been increased by various factors. A new office and warehouse building has been purchased in Toronto.

Chemical intermediaries for the textile, mining, rubber and paper industries constitute a large part of the varied products handled by the Organic Chemicals Division. Dyestuffs which represent the most important single group of products showed a considerable expansion over 1939 and sales of chemicals to the mining industry, as a result of the record volume of gold production, maintained the high level of the previous year. Sales of miscellaneous products including rubber chemicals, carbon black and neoprene, which reflect the greatly increased activity in rubber manufacturing companies, have grown substantially. Continued progress was achieved in developing markets for many specialty products such as lubricant assistants and "Mycoban" for the prevention of mould and rope formation in bread. The use of trichlorethylene for degreasing purposes in many plants occupied on war production contributed to the increased output of the manufactured products of the Division. Nylon, the new synthetic textile fibre, was accorded a satisfactory reception by the public, but sales were necessarily limited to the quantity available. A plant is now being erected at Kingston, Ontario, to manufacture nylon yarn for the textile industries from imported flake polymer, and a separate division has been established to operate this development.

Salt is the basic raw material used in a wide range of chemical manufacturing processes and the output of the Salt Division in 1940 therefore responded directly to the expansion of chemical

production as represented by the year's increase in the Company's total sales. Although production of "Windsor" salt for household purposes showed only a minor variation, the large volume of meat exports necessitated a more extensive use of salt by the packing industry. Improved methods of ice control obtained by the employment of salt-treated abrasives also contributed to the higher sales volume. Large expenditures for new and improved equipment in the years prior to 1940 enabled the Division to maintain low cost production and efforts to achieve a more stable rate of output by lessening the influence of seasonal factors have had encouraging results.

EXPLOSIVES AND AMMUNITION GROUP

Under considerable strain because of the number of trained personnel transferred to government projects, the "Dominion" Ammunition Division nevertheless maintained a high level of production throughout the year. A portion of the Division's output of metallic sporting cartridges was purchased by the Government for military training purposes. With the greater interest in voluntary training, the practice of target rifle-shooting increased noticeably. The continued expansion of membership in the Dominion Marksmen clubs, many of which are connected with organized training groups, and the much larger number of targets submitted for inspection, reflect the influence of the programme developed to secure publicity for all .22 Sporting and Target Rifle Competitions and their regional results.

Outstanding in the national industrial effort of 1940 was the large volume of ore extracted by the mining industry. Gold and base metal mines achieved a particularly high level of production which resulted in heavy consumption of commercial explosives. The increased demand from this source offset the reduction in public construction work, particularly highway construction which gave place to more urgent governmental expenditures. The efficiency with which heavy production schedules were maintained in all plants of the Explosives Division, despite the loan of trained personnel and other assistance rendered to government projects, is clear indication of the excellence of the standards

developed by the organization and of the thorough supervision and maintenance of all operating facilities. It will be appreciated that much vital industrial activity depends upon the Division's ability to safeguard the continuity of deliveries of finished products to consumers. In order to eliminate possible interruption of production owing to shortage of supplies, various important plant additions, designed to manufacture essential raw materials previously obtained from sources now uncertain or closed, were undertaken during the year. Although depleted by transfer of staff for war work the specialized technical department has endeavoured to continue its services to customers in developing and maintaining satisfactory blasting techniques. The value of the attention given for many years to the promotion of the safe handling of commercial explosives has never been more apparent than under the severe test of present conditions where with a limited number of experienced operators greatly expanded mining production is being undertaken.

FERTILIZER GROUP

The growth in sales experienced by the Fertilizer Group in recent years was continued during 1940, although it is believed that additional expansion on a large scale must await a solution of some of the agricultural problems confronting this country. Loss of foreign markets for many farm products, with the resulting downward pressure on the prices, has necessitated severe internal adjustments which usually take the form of curtailment of acreage and less intensified cultivation of crops. Fertilizer production has been subject to wide seasonal fluctuations and in order to facilitate the attainment of a more uniform rate of output substantial additions were made to warehouse capacity during the year. With the same purpose in view, the development of a wider market for such supplementary products as insecticides and seed disinfectants was continued with good results. Because war conditions made it difficult to import sufficient quantities of high vitamin cod liver oil, a new scientifically produced form of Vitamin "D" known as "Delsterol", for fortifying poultry and animal feeds, has been added to the list of resale products. As

a large percentage of the raw materials used in the manufacture of fertilizer is imported, the premium on United States funds, the imposition of the war exchange tax and heavier freight charges necessitated an advance in selling prices despite the efforts put forward to maintain low production costs. In order to make the most effective use of the nation's resources and to co-ordinate agricultural production with market requirements, various government departments are providing the farmer with valuable educational aid. The Fertilizer Group has for many years co-operated in this work and has been encouraged to extend its programme of services by the appreciation expressed in farming communities throughout Canada. The services include free soil-testing, publication of a monthly farm news letter and the preparation of films designed to promote interest in improved farming techniques.

DEFENCE INDUSTRIES LIMITED

This wholly-owned subsidiary company was formed in September, 1939, for the purpose of segregating direct war activities from the commercial operations of Canadian Industries Limited. By means of extensive staff re-arrangement and replacement it has been possible to transfer from the parent Company a large number of trained personnel, including those experienced in engineering and technical operations, to fill key positions in the new organization. The major activities of Defence Industries Limited have been the construction and subsequent operation of plants in Canada at the request of the Department of Munitions and Supply acting on behalf of the Government of the United Kingdom. The scope and urgency of these undertakings presented management problems of an unprecedented character and in all such matters the wide administrative and technical resources of Canadian Industries Limited have at all times been made fully available to the subsidiary company.

In addition to erecting and operating government-owned plants on a fixed fee basis, the new company extended and brought into full production certain relatively small plant units transferred from the parent Company. For this purpose and to provide working capital an amount of \$2,000,000 has been

invested in capital stock of Defence Industries Limited and at the end of the year dividends totalling \$77,700, covering a period of fifteen months since the beginning of operations, were declared.

MANAGED INVESTMENTS

THE position of subsidiary and other companies managed by Canadian Industries Limited has shown an almost consistent improvement in recent years and this favourable trend was continued in the year 1940. The higher level of general business activity undoubtedly contributed to the improvement, but efforts put forth in previous years to develop new production and to obtain a greater consumer acceptance resulted in a considerable widening of markets.

Aluminate Chemicals Limited, organized four years ago to supply industry in the Dominion with sodium aluminate and other chemicals used in the treatment of boiler-feed water, has had a steady growth with the result that sales reached a sufficient volume in 1940 to put the company on a profitable basis for the first time. Although earnings will be largely absorbed by the excess profits tax, the erection of a plant to manufacture such chemicals in the Dominion is now being undertaken.

The sales of Canadian Hanson and Van Winkle Company Limited for 1940 showed progressive improvement throughout the year but after providing for excess profits tax, the net profit was slightly lower. The expanded volume of output in the automotive industry increased the demand for metal plating supplies and equipment; sales of degreasing solvents, galvanizing fluxes and other new specialty products showed good progress. The local management was particularly successful in availing itself of the improved opportunities for development and a new foundry aided in the efficient handling of the heavier load.

Sales of Canadian Safety Fuse Company Limited exceeded the level attained in 1939 but the rising prices of imported raw materials and other operating costs, together with the increases in taxation, brought about a reduction in earnings.

As in previous years much attention was paid in 1940 to the

development of a broader market for titanium pigments. Further advances were made in this direction and the upward trend in sales to the paint industry continued. As a result, Canadian Titanium Pigments Limited is now well established on an earning basis and with an improvement in the working capital position it was possible to pay off the arrears of dividends. Regular quarterly dividend payments were made during the year.

The consistent progress shown by Dunlop Tire and Rubber Goods Company Limited in recent years was maintained during 1940. While total sales for commercial uses continued to expand, the company, together with other manufacturers of rubber products, was called upon to supply large quantities of equipment for military vehicles. The net operating results, however, were reduced owing to the higher level of taxation. A dividend of 50 cents per common share, the same rate as in the previous year, was declared for 1940.

GENERAL

POLICY IN WARTIME

On a previous occasion the Board announced to shareholders its intention of including in annual reports not only facts of a statistical character but also descriptive material which might prove interesting to those wishing to be informed on policies followed by the Company. In this report, in addition to regular features, an attempt is made below to state briefly the conception this Company has of one important aspect of its duty to the nation in the special circumstances of the war period.

The Company shares the opinion that government with its vast responsibilities in time of war should expect and should receive the greatest possible co-operation from industry. Every endeavour should be made to assist those charged with administering the affairs of the nation in developing simple and effective methods of fulfilling their responsibilities. It is consistent with this viewpoint that in matters concerning the Company, provided proper regard is shown for the urgency of the present situation, questions of policy and principle should continue to be fully considered and discussed. The necessity of control is recognized

together with the obligation to conform to the spirit and the letter of emergency requirements, and because in many industrial situations direction from within an organization can be more effective than regulation by outside agencies, certain practices have been instituted within the Company which broadly demonstrate the principles by which the Board has been guided. Among these are:

(a) immediate use or conversion of existing plant for the production of material essential to the war effort as soon as the demand becomes known;

(b) immediate expansion or re-arrangement of production to the fullest practicable extent in order to meet temporarily an emergency demand for essential war materials;

(c) careful selection of proper personnel from among those directing commercial operations to assist in the production of essential war materials;

(d) close co-operation with the Wartime Prices and Trade Board, particularly in regard to regulations affecting selling prices of the Company's products;

(e) intensive internal control to keep expenditures at the lowest possible level as a means of resisting increases in selling prices—in particular restraining any tendency to allow expenditures to increase prompted by the abnormally high level of taxation;

(f) energetic co-operation with nation-wide schemes to promote the sale of War Savings Certificates, to encourage advance payment of taxes, etc.;

(g) utmost assistance to various government departments, boards, etc., by the administrative and technical staff, engineers, accountants, buyers and those experienced in matters of industrial relations.

It is not suggested that in the circumstances these practices are exceptional or different in character or extent from those generally followed by industrial concerns and the statement does not

attempt to set forth all the items that might be included under this heading. Nevertheless it is believed that expressed in this form it will be of interest to shareholders and others who may not be familiar with the variety of directions in which industry is contributing to the war effort.

ORGANIZATION

No part of the Company's national service has been of greater importance than the extent to which it has been able to draw on its established and experienced organization. Only by severe inroads on its own personnel has it been possible to meet the urgent requirements of the government-owned plants for the construction and operation of which Defence Industries Limited is responsible. Moreover, much valuable assistance of an administrative and technical character continues to be rendered by members of the staff of the parent Company. Special mention should be made of those units of the organization which by reason of long training in their respective functions have been able to apply their experience so successfully to the immense tasks and technical problems confronting them. Great credit is also due to those individual employees in all categories who have been called upon to shoulder new and heavy responsibilities. Every division and department has faced increased work under trying conditions and with depleted staffs, and the response of all concerned could not have been better. The Board welcomes this opportunity of placing on record its full appreciation of these efforts upon which so much depends at this time of national trial.

As a matter of general interest and because of the praise they deserve, mention is made here of those voluntary activities which employees have organized among themselves in support of various causes connected with the war. Most of these have been undertaken by small groups at different centres but employees at all works and offices including associated companies joined in raising a fund, the greater part of which was donated to the Canadian Red Cross Society for the purchase of two fully equipped ambulances, while the balance was sent to the Minister of National Defence and was used to buy motor-cycles.

PUBLICITY

The development or innovation of processes, and other Company activities of general interest, continued to attract considerable attention and a wide variety of contributed news items, articles and photographs were supplied to newspapers and periodicals. This growing public interest in the products and techniques of the chemical industry was also manifest in the further increase in the distribution of the magazine "C-I-L Oval", which was published every other month in separate English and French editions as in the past. Owing to war conditions future editions of the magazine until further notice will appear quarterly.

EMPLOYEE RELATIONS

UNDER present conditions employment figures, while giving an indication of the general trend, fluctuate for reasons other than immediate industrial requirements, and comparisons with prior years in many large establishments are not therefore a reliable measure of actual growth. During 1940 the highest level reached in this Company was 5,900 employees, but some of these were later transferred to war production in government-owned plants and at 31st December the total number employed by the Company was 5,355, an increase of 23% over the total a year previously.

In addition there were at the end of the year 4,200 employees in Defence Industries Limited, including 900 trained men and women lent from the various divisions and departments of the parent Company. The other companies for the management of which Canadian Industries Limited is directly responsible showed an increase of 22% over 1939, the number employed being 1,500 at the end of 1940.

By the end of the year 153 employees who could be released from their duties had been granted special leave to serve in the armed forces. Under the National Service Policy adopted by the Company these employees are receiving special pay, continuation of service credit, and pension and benefit coverage. Full pay is allowed for the first month after enlistment and a monthly allow-

ance thereafter equivalent to the amount by which Company pay exceeds the sum of government pay and dependents' allowance or, when no dependents' allowance is payable, to the amount by which two-thirds of Company pay exceeds the government pay. In recognition of the commitment made to employees serving in the forces it is understood that all promotions and engagements since 1st September, 1939, are terminable at the end of the war.

Special payments were instituted towards the middle of the year for men attending military training camps, either with the Non-Permanent Active Militia or as drafted under the National Resources Mobilization Act. These payments are calculated on the same basis as the allowance to enlisted men under the National Service Policy and begin after the completion in camp of any vacation period for which the employee is eligible. In only a very few cases was it necessary to request postponement of the training period because the employee could not be spared when called.

The Employee Representation Plan since its inception in 1934 has had opportunity during comparatively uneventful years to establish itself in the confidence of employees and management as a thoroughly practicable means of facilitating consultation on matters of mutual interest. The present industrial situation confronts the works councils with circumstances that add greatly to their responsibilities, an experience which they share with all assemblies called upon to represent their fellow-men in countries where free discussion and respect for principles make possible firm adherence to a common purpose despite differing viewpoints. The demands of a national emergency must be borne by employees as well as by management, and their combined response will be affected by the nature of the relationship which exists between them. In its constant endeavour to establish mutually satisfactory working conditions, the Company's management has met with the utmost goodwill and understanding on the part of the employees. This spirit has characterized all discussions during the year and the wide variety of new problems that arose from changed conditions have proved no impediment to the continuance of the satisfactory relationship which the Company earnestly seeks to encourage.

The newspaper "Contact", published monthly in English and French editions, kept employees in all parts of Canada constantly informed about personnel activities and Company news. In addition to announcing changes in industrial relations plans, accident and fire prevention measures, etc., a series of explanatory articles was published on the new income tax regulations and the purchase of War Savings Certificates.

INDUSTRIAL RELATIONS PLANS

1940 Co-operative Savings Plan—Upon termination of this Plan in January, 1941, the participants received \$360,700 representing twelve months' savings plus interest at 3%, of which approximately two-thirds was contributed by the Company, and the Company's contribution of 25 cents on each dollar of savings. The number of employees who shared in the disbursements was 2,345 or 75% of those eligible to enter the Plan, the requirements for eligibility being one year's continuous service and earnings not exceeding \$250 a month. The maximum rate of saving allowed was 10% of earnings up to a limit of \$20 a month. Participants in the Savings Plan were encouraged in June and again in December to purchase War Savings Certificates with all or part of their savings and the Company contribution thereon. The Savings Plan for the year 1941 has been designed to secure the maximum possible investment in war savings and the Company's contribution will be paid in certificates.

In July, 1940, arrangements were completed which gave every employee the opportunity to authorize monthly deductions from earnings for the purpose of buying War Savings Certificates. Many employees not eligible for the 1940 Co-operative Savings Plan availed themselves of this arrangement. In connection with the campaign launched by the Government in February, 1941, for the enlistment of all wage earners as regular purchasers of War Savings Certificates, employees through their own committees in all works and offices organized a Company-wide

canvass in a determined drive to enroll every employee as a monthly subscriber.

Co-operative Health Insurance Plan—Hospital, operation and allied services resulted in 286 claims on which an amount of \$24,000 was paid. Physicians' fees to the extent of \$4,700 were paid on 341 claims. Premiums are paid jointly by participating employees and the Company.

Disability Wage Plan for Payroll Employees—A total of \$52,800 was paid to 495 employees during absence through illness or accident. The maximum payment is the equivalent of thirteen weeks' full wages beginning with the second week of absence, but where workmen's compensation is paid the amount thereof is deducted from the payments. The full cost of the plan is borne by the Company and a year's continuous service is required for eligibility.

Vacation Plan for Payroll Employees—Vacations with pay of one week after six months' service and two weeks after twelve months' service were granted to 2,070 employees at a cost to the Company of \$102,000. Renewal of this Plan is dependent on the exigencies of the war situation.

Employees' Benefit Plan—The amounts payable to beneficiaries of 16 employees and 8 pensioners who died during the year totalled \$34,800. Death benefits range from \$1,000 after six months' service to \$1,500 after five years' service and benefits totalling \$356,000 have been granted since the Plan was introduced in 1920. Additions to the reserve out of which benefits are paid, and which is supported entirely by the Company, totalled \$170,000 for the year.

Pension Plan—During the year 15 employees were retired on pension and the number on the pension-roll at the end of the year was 92. An amount of \$288,000 was set aside for the pension reserve in 1940 and cash payments to pensioners totalled \$56,600. This is a non-contractual plan, the full cost of which is maintained at the Company's expense.

Bonus Plan—Awards for the year 1940 were made to 184 employees whose services were considered to have surpassed

routine requirements to an extent which justified special recognition. Recommendations are made by senior executives and a committee of Directors decides on the awards which, being distinct from salary, do not permanently disturb the general scale. An incentive for renewed and increased effort is thus provided and continued association with the Company of employees of outstanding ability is encouraged. The Plan has been in force for twenty-two years and takes effect in those years in which earnings from operations, exclusive of income from investments, exceeds 6% of the manufacturing investment. An amount of not more than 15% of such excess is applied to the purchase from the Company of Class "B" non-voting common shares at a price decided by the Board of Directors on a basis of earning power and other factors. In 1940 the amount computed for the purchase of shares was appreciably lower than in the previous year owing to the materially larger manufacturing investment and the considerable decline in net operating earnings after taxes. This part of management cost is therefore proportionate to results in the year for which the awards are made. Certificates for the allotted shares are delivered to employees in equal instalments over a period of four years.

No-Accident Record Plan—Expanded production schedules and the greater number of employees caused a marked increase in the number of man-hours worked and the total number of accidents in 1940 was noticeably higher than in recent years. Although mostly of a minor nature, some were serious and the Board reports with deep regret the death during the year of four employees in the course of employment. The accident-frequency rate for the whole Company in 1940 was only slightly higher than in the past few years and at six works awards were won for completing without an accident the periods required by the No-Accident Record Plan. At all times accident prevention training in industry is of supreme importance and in this direction the Company has intensified its efforts to meet present conditions. The influence of systematic training and the diligence of employees in the observance

of approved safety habits are clearly demonstrated by the low accident-frequency rate achieved for the year despite the large number of new and inexperienced employees.

Service Pin and Watch Plan—Employees receive gold pins to mark completion of each five-year period of service up to twenty-five years and the full period is further commemorated by the presentation of a gold watch. There were 490 pins and 45 watches awarded in 1940. The number of employees with ten or more years' service is 1,460 and there are 398 with twenty or more years' service, such service having been rendered entirely with this Company or in part with an associated or an acquired company.

All these Plans were in effect before the war and were continued without change for the pre-war employees. Four of them apply also to wartime employees, namely, the Disability Wage and Vacation Plans and the Employee Representation and No-Accident Record Plans.

DIRECTORS

EARLY in the year Mr. H. Greville Smith, Vice-President, was elected to fill a vacancy in the Board of Directors.

The Right Honourable Arthur B. Purvis, on leave of absence from his duties as President and Managing Director, was appointed a member of the Imperial Privy Council in recognition of the important public services which he had performed, outstanding among these being his activities as Director-General of the British Purchasing Commission in the United States. He was subsequently appointed Chairman of the British Supply Council in North America.

On behalf of the Board of Directors,

GEORGE W. HUGGETT,
First Vice-President.

Montreal, Canada, 10th March, 1941.

FINANCIAL STATEMENTS

CANADIAN INDUSTRIES LIMITED

INCOME AND EXPENDITURE AND EARNED SURPLUS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1940

Income from Operations after charging depreciation and providing a reserve against future loss in inventory values.....		\$ 8,071,412
Income from Investments.....	\$ 871,379	
Profit on sale of Marketable Securities.....	<u>16,384</u>	<u>887,763</u>
		\$ 8,959,175
Reserve for Income and Excess Profits Taxes		<u>3,563,012</u>
NET INCOME FOR THE YEAR.....		\$ 5,396,163
Dividends:		
Preferred 7% Cumulative Stock.....	\$ 325,500	
Common Stock (\$7.00 per share).....	<u>4,878,615</u>	<u>5,204,115</u>
		\$ 192,048
Earned Surplus at 1st January, 1940.....		4,348,231
Additional tax on 1939 income due to retro-active increases in various provincial income tax rates, and other prior year adjustments.....		<u>144,516</u>
EARNED SURPLUS AT 31ST DECEMBER, 1940...		<u>\$ 4,395,763</u>

NOTE: Included in the expenses charged against Income from Operations are the following items: depreciation \$1,815,505, remuneration of 30 executives including bonus awards \$580,645, directors' fees \$20,000 and legal expenses \$5,489.

CAPITAL SURPLUS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1940

CAPITAL SURPLUS AT 1ST JANUARY, 1940.....	\$14,931,098
Profit on sale of Capital Assets, less adjustment in the book value of idle real estate.....	<u>13,495</u>
CAPITAL SURPLUS AT 31ST DECEMBER, 1940...	<u>\$14,944,593</u>

CANADIAN INDU

BALANCE SHEET AT

ASSETS

CURRENT ASSETS

Cash.....	\$ 3,349,066	
Marketable Securities (market value \$1,295,000)...	1,351,837	
Government.....	\$ 1,099,567	
Others.....	252,270	
Accounts Receivable, less reserve for doubtful accounts.....	5,172,017	
Customers' Accounts.....	\$ 3,877,257	
Subsidiary Companies.....	873,076	
Accrued Revenue from Investments and Other Accounts.....	421,684	
Inventories, valued at the lower of cost or market price, less reserve against future loss in inventory values.....	10,175,070	\$20,047,990

DEFERRED CHARGES TO OPERATIONS..... 117,809

PREFERRED SHARES, IN TRUST FOR EMPLOYEES' STOCK

INVESTMENT PLANS..... 922,720

FIXED ASSETS

Plants, Buildings and Equipment, based on the appraisals of the National Appraisal Company (1927 to 1929), as adjusted by the Company's own engineers, with sub- sequent additions at cost.....	34,766,521	
Land, at cost.....	1,670,495	
Goodwill, Patents and Processes.....	3,378,151	39,815,167
Investments in Subsidiary Companies.....	3,105,858	
Shares in Other Companies (including marketable shares, book value \$2,500,000, market value \$6,600,000).....	3,587,685	6,693,543
		<u>\$67,597,229</u>

Approved on behalf of the Board,

G. W. HUGGETT }
C. C. BALLANTYNE } *Directors.*

STRIES LIMITED

31st DECEMBER, 1940

LIABILITIES

CURRENT LIABILITIES

Accounts Payable.....	\$ 2,275,235	
Subsidiary Companies.....	6,311	
Dominion, Provincial and Municipal Taxes...	3,629,421	
Dividends Declared.....	<u>81,375</u>	\$ 5,992,342

DEFERRED LIABILITIES.....		148,944
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RESERVES

Depreciation of Securities.....	1,200,000	
Depreciation of Plants, Buildings and Equipment.....	17,288,492	
Pension and Benefit Plans and Self-Insurance..	<u>3,556,888</u>	22,045,380

CAPITAL STOCK

Authorized	Shares	
Preferred 7% Cumulative Stock (par value \$100).....	75,000	
Common Stock (no par value)		
Class "A" Voting.....	660,000	
Class "B" Non-voting.....	<u>690,000</u>	
Issued and Fully Paid		
Preferred Stock.....	46,500	4,650,000
Common Stock		
Class "A".....	615,974	
Class "B".....	<u>80,971</u>	696,945
(Issued during the year in respect of 1939 awards under the Company's Bonus Plan for delivery to employees over a period of four years, 3,892 Class "B" shares—\$661,640)		15,420,207

CAPITAL SURPLUS.....	<u>14,944,593</u>	35,014,800
EARNED SURPLUS.....		<u>4,395,763</u>
		<u>\$67,597,229</u>

This is the Balance Sheet referred to in our attached Report of even date.

P. S. ROSS & SONS, *Chartered Accountants.*

Montreal, 13th February, 1941.

AUDITORS' REPORT

Canadian Industries Limited,
Montreal.

We have audited the books of account and financial records of Canadian Industries Limited for the year ended 31st December, 1940, and have obtained all the information and explanations we have required.

The inventories shown on the attached Balance Sheet have been determined and certified by the management of the Company.

In accordance with Section 114 of the Dominion Companies Act, we report that profits earned by subsidiary companies for the year 1940 have been included in the attached accounts only to the extent of the dividends declared and received or receivable by this Company. The balances of these profits have been carried forward in the books of the subsidiary companies and are, in the aggregate, in excess of the loss sustained by one subsidiary company, which loss has also been carried forward in the books of that company and has been provided for in the attached accounts.

We certify that, in our opinion, the attached Balance Sheet and relative Income and Expenditure and Surplus Accounts are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1940, and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

P. S. ROSS & SONS,
Chartered Accountants.

Montreal, 13th February, 1941.

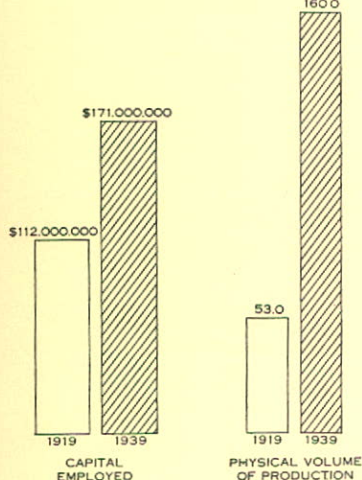
CHEMICAL AND ALLIED PRODUCTS

CANADA

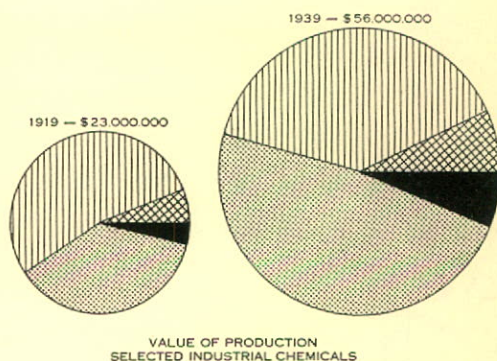
1919 - 1939

S U P P L Y

(BASE 1926 = 100)

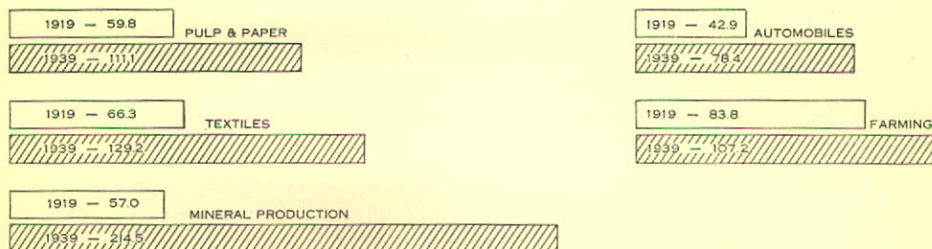


COAL TAR DISTILLATION
ACIDS, ALKALIS AND SALTS
COMPRESSED GASES
MISCELLANEOUS CHEMICALS



D E M A N D

AS MEASURED BY THE
PRODUCTION OF CHEMICAL CONSUMING INDUSTRIES
(BASE 1926 = 100)



CANADIAN INDUSTRIES LIMITED

CELLULOSE PRODUCTS GROUP

"CELLOPHANE" DIVISION

Plain transparent, moistureproof transparent and other special grades of plain and coloured "Cellophane" cellulose film.

"FABRIKOID" DIVISION

"Fabrikoid" and rubber-coated fabrics; "P.X." book cloth and other binding materials; "Tontine" window-shade cloth, buckram, "Pontan" and other shoe materials.

PAINT AND VARNISH DIVISION

Lacquers, varnishes and enamels; oil colours; industrial paints; "Duco," "Dulux" and "Pyralux" for industrial and automotive finishes; "Cilux" for household uses, etc.

PLASTICS DIVISION

Combs; tooth-brushes; toiletware; transparent and opaque plastic sheets, rods and tubes; moulding powders; X-ray film and chemicals; "Lucitone" denture material; nylon monofilament for brush bristles, fishing leaders, tennis-racquet strings, etc.

CHEMICAL GROUP

ALKALI DIVISION

Caustic soda and other alkalis; chlorine; bleaching powder and other chlorine derivatives.

GENERAL CHEMICALS DIVISION

Sulphuric and muriatic acids, aqua and anhydrous ammonia and refrigerant gases, ammonium chloride and other heavy chemicals.

NYLON DIVISION

Nylon yarn for the textile industries.

ORGANIC CHEMICALS DIVISION

Dyestuffs; dry colours and pigments; intermediates; mining chemicals, neoprene, rubber colours and chemicals; solvents; ceramic materials and other organic chemicals.

SALT DIVISION

All grades of "Windsor" salt for household, agricultural and industrial purposes.

EXPLOSIVES AND AMMUNITION GROUP

"DOMINION" AMMUNITION DIVISION

"Duco" waterproof shot-shells and all other classes of sporting ammunition embodying "Super-clean" non-mercuric priming; railway fuses and signals, etc.

EXPLOSIVES DIVISION

Commercial explosives and blasting accessories.

FERTILIZER GROUP

FERTILIZER DIVISION

Superphosphate; complete fertilizers; "Gardenite" plant food; insecticides; "Cel-O-Glass"; "Sol-Min" and "Pig-Min" (mineral supplements); "Stable-Phos"; "Delsterol" (Vitamin "D"), etc.

CANADIAN INDUSTRIES LIMITED

CHART OF ADMINISTRATION

* IN DECEMBER, 1939, LEAVE OF ABSENCE WAS GRANTED TO THE PRESIDENT AND FOR THE PERIOD OF HIS ABSENCE THE FIRST VICE-PRESIDENT WAS AUTHORIZED TO MANAGE THE AFFAIRS OF THE COMPANY

